

1 UNITED STATES BANKRUPTCY COURT

2 SOUTHERN DISTRICT OF NEW YORK

3 Case No. 10-04730(SMB)

4 - - - - - x

5 In the Matter of:

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7 IRVING H. PICARD, ESQ., TRUSTEE FOR THE SUBSTANTIV.,

8 Plaintiff,

9 v.

10 EDWARD BLUMENFELD,

11 Defendant.

12 - - - - - x

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14 U.S. Bankruptcy Court

15 One Bowling Green

16 New York, New York

17

18 November 18, 2014

19 10:02 AM

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22 B E F O R E :

23 HON STUART M. BERNSTEIN

24 U.S. BANKRUPTCY JUDGE

25 ECRO: J. CHIEN

1 Hearing re: Motion to Approve a Settlement Agreement By and
2 Between the Trustee and the Defendants

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Transcribed by: Jamie Gallagher

1 A P P E A R A N C E S :

2 GOODWIN PROCTOR, LLP

3 Attorney for Blumenfeld

4 The New York Times Building

5 620 Eighth Avenue

6 New York, NY 10018

7

8 BY: WILLIAM WEINTRAUB, ESQ.

9

10 CLAYMAN & ROSENBERG, LLP

11 Attorney for Blumenfeld

12 305 Madison Avenue

13 New York, NY 10165

14

15 BY: SETH ROSENBERG, ESQ.

16

17 WINDELS MARX LANE & MITTENDORF, LLP

18 Attorneys for the Trustee

19 156 West 56th Street

20 New York, NY 10019

21

22 BY: HOWARD L. SIMON, ESQ.

23 KIM M. LONGO, ESQ.

24

25

1 BAKER HOSTETLER

2 Trustee

3 45 Rockefeller Plaza

4 New York, NY 10111

5

6 BY: IRVING H. PICARD, ESQ.

7

8 SECURITIES INVESTOR PROECTION CORPORATION

9 Counsel for Dispute Resolution

10 805 15th Street, NW

11 Suite 800

12 Washington, DC 20005

13

14 BY: KEVIN BELL, ESQ.

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P R O C E E D I N G S

THE COURT: Be seated. Madoff.

MR. SIMON: Good morning, Your Honor.

THE COURT: Good morning.

MR. SIMON: Howard Simon and my colleague, Kim Longo, from Windels Marx on behalf of Irving Picard as Trustee.

Before Your Honor today is the Trustee's 9019 motion. There is no objection, so my remarks will be brief but I'll give you an overview of the action, the process that led us to the settlement, the benefits of the settlement, and (indiscernible) factors commonly used by the Court to support approval of this settlement.

THE COURT: Go ahead.

MR. SIMON: The Trustee's complaint seeks to recover fraudulent transfers and conveyances received by defendants and to subordinate (indiscernible).

THE COURT: Hold it down back there. Go ahead, sorry.

MR. SIMON: And to subordinate or disallow certain defendant customer claims. The defendants in the case include Edward Blumenfeld, his family members -- excuse me -- a number of entities that were involved in his real estate development business, and a number of family trusts. The trustee's avoidance claims includes claims against

1 defendants totaling \$88 million during the six year
2 statutory period of which the sum of 27 million constitutes
3 fictitious profits.

4 THE COURT: What is it during a two year period?

5 MR. SIMON: During the two year period it is 65
6 million, and during the two year period the fictitious
7 profits equals 13 million. A customer claim which the
8 trustee seeks to subordinate or disallow total approximately
9 \$29 million. The process that ultimately led to this
10 heavily negotiated settlement began pursuant to a
11 stipulation and order so ordered by Judge Lifland on
12 August 27th, 2012, pursuant to which the trustee of the
13 defendants agreed to exchange limited discovery and to
14 mediate the issues presented in the case. The parties
15 engaged in multiple mediation sessions, through a long
16 period of time, until March 17th, 2014, where the mediation
17 ended without a settlement. However, subsequent to the
18 mediation, the parties continued to negotiate and ultimately
19 were successful in achieving a settlement on
20 October 16th, 2014.

21 During this two year period, in addition to
22 mediating and negotiating, the trustee's counsel conducted
23 an extensive investigation of the defendant's dealings with
24 Madoff and the MLIS, and reviewed and analyzed thousands --
25 voluminous documents regarding the defendant's transactions

1 with Madoff and the MLIS.

2 The settlement, which will end the litigation
3 between the trustee and the defendants, and permeate and
4 resolve the trustee's avoidance claims, the defendant's
5 customer claims, and all matters as set forth in the
6 settlement agreement, will result in substantial benefit in
7 a form of payments for the fund of customer property. At
8 the closing, which will occur shortly after an approval
9 order, if it is granted by the Court becomes final,
10 defendants will pay a lump sum payment of \$32,750,000 at a
11 closing.

12 In addition, at the closing, the defendant's
13 customer claims of approximately \$29 million will be fully
14 assigned to the trustee, which will result in additional
15 funds available at closing for distribution to customers.

16 THE COURT: Will the trustee allow those claims?

17 MR. SIMON: The trustee will allow those claims
18 once they are assigned, I am quite assured, Your Honor.

19 THE COURT: Okay.

20 MR. SIMON: Based on the current distribution of
21 approximately 46 percent to Madoff customers with allowed
22 claims, this will result with a payment at closing of over
23 \$50 million. In addition, since the trustee now will have
24 the allowed claims, the value of those claims could increase
25 up to their full value of the claims that were ultimately

1 paid in full which would result in a settlement value of
2 approximately \$62 million. We think that these settlement
3 benefits will benefit greatly the fund of customer property,
4 and we are therefore asking the Court to approve the
5 settlement.

6 The factors that the Court typically uses in
7 considering settlements, we think strongly support the
8 settlement here. In addition to the contribution to the
9 fund of customer property, which I've mentioned, the
10 settlement eliminates substantial risks and uncertainty of
11 litigation, including over what Your Honor knows is a highly
12 contentious issue as to its defendant's good or bad faith,
13 and the trustee's ability to recover transfers representing
14 principal as opposed to fictitious profits, and the whole
15 issue of two year transfers versus six year transfers. All
16 of those uncertainties of litigation are resolved by this
17 settlement.

18 In addition, the settlement also eliminates the
19 expense and delays of such litigation which not only entail
20 litigation in terms of proving liability, all the motion
21 practice, and all the appeals that are -- have been very
22 common in the Madoff cases. While not a predominant factor,
23 the settlement also avoids any difficulties of collection.
24 In light of the fact that the trustee's avoidance claims are
25 against literally dozens of individual entities and family

1 trusts.

2 Finally, there can be no question that the
3 settlement is an arm's length settlement. As I mentioned
4 earlier, this has been an arduous two year process of
5 mediations and negotiations resulting in a heavily
6 negotiated, but we believe very beneficial settlement. For
7 all those reasons, the trustee has submitted an affidavit
8 supporting the settlement indicating that in his business
9 judgment, it is both reasonable and in the best interest of
10 the estate and we ask the Court to approve the settlement.

11 THE COURT: Thank you.

12 MR. BELL: Kevin Bell on behalf of the Securities
13 Investor Protection Corporation.

14 SIPC wholeheartedly supports this settlement. I
15 would note that the current value, when the trustee makes an
16 allocation in the near future, this would be valued at about
17 a quarter of one cent, which would go to customers and raise
18 us above the 4606 cents and I would ask the Court to --

19 THE COURT: Thank you.

20 MR. BELL: -- approve the settlement.

21 THE COURT: Does anyone else want to be heard?
22 All right.

23 I'll approve the settlement. It's the result of
24 an arm's length mediation process and I note that the
25 potential value of the settlement is nearly five times the

1 fictitious profits claims in a two year period. The balance
2 of the claim has problems that you've mentioned: two years
3 versus six years. Defendant's knowledge in terms of
4 reaching back six years, so given the Iridium factors
5 announced by the Second Circuit, I'm satisfied. This
6 settlement falls well above the range -- the lowest point on
7 the range of reasonableness and I'll approve it. You can
8 submit an order, thank you. And submit a separate order
9 closing the adversary proceeding.

10 MR. SIMON: We will do that, thank you, Your
11 Honor.

12 THE COURT: Thank you.

13 ALL: Thank you, Your Honor.

14 (Whereupon these proceedings were concluded at 10:09
15 AM)

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By and Between the Trustee and the Defendants		

C E R T I F I C A T I O N

I, Jamie Gallagher, certify that the foregoing transcript is
a true and accurate record of the proceedings.

Jamie
Gallagher

Digitally signed by Jamie
Gallagher
DN: cn=Jamie Gallagher, o, ou,
email=digital1@veritext.com,
c=US
Date: 2014.11.19 16:12:44 -05'00'

Veritext

330 Old Country Road

Suite 300

Mineola, NY 11501

Date: November 19, 2014

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